

CITY OF PARCHMENT, MICHIGAN
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Parchment	County Kalamazoo
Audit Date 6/30/05	Opinion Date 9/28/05	Date Accountant Report Submitted to State: November 14, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

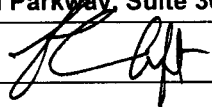
Certified Public Accountant (Firm Name) Seber Tans, PLC			
Street Address 555 W. Crosstown Parkway, Suite 304	City Kalamazoo	State MI	ZIP 49008
Accountant Signature 		Date 11/08/05	

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Members of the City Commission
City of Parchment, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Parchment, Michigan (the City) as of and for the year ended June 30, 2005, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Parchment, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2-5 and 36-38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SEBER TANS, PLC

Seber Tans, PLC
Kalamazoo, Michigan

September 28, 2005

**CITY OF PARCHMENT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005**

This section of the City of Parchment's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

The City's Total Net Assets are \$5,587,633.

During the year, the City's expenses were \$144,568 less than the \$1,263,161 generated in taxes, other revenues and other financing sources for governmental programs.

The City's General Fund fund balance at year end was \$802,753, which represents almost 7 months of budgeted expenditures in the 2005-06 fiscal year.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

Proprietary fund statements offer short and long-term financial information about the activities that the government operates like businesses, such as the water and sewer system.

**CITY OF PARCHMENT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities - Most of the City's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes and state grants finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer systems are included here.
- Component units - The City includes one other entity in its report - the Downtown Development Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it.

CITY OF PARCHMENT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

The City has two kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities - such as the City's Internal Services Fund.

Financial Analysis of the City as a Whole

Changes in Net assets

The City's combined net assets are \$ 5,587,633. In comparison, last year net assets were \$5,482,771, an increase of \$104,862. Governmental activities have total net assets of \$3,673,528.

	Governmental Activities 2005	Business-type Activities 2005	Total 2005
Current assets	\$ 3,964,897	\$ 1,925,303	\$ 5,890,200
Current and long term liabilities	291,369	11,198	302,567
Total net assets	<u>\$ 3,673,528</u>	<u>\$ 1,914,105</u>	<u>\$ 5,587,633</u>

CITY OF PARCHMENT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Governmental Activities

The City's Administration took actions this year to reduce expenses. The City does not have many options to increase revenue. The City's total governmental fund revenues excluding other financing sources were \$1,392,708 this year. Property taxes were \$744,940 or 53% of the total revenues. Property tax increases are controlled by various State laws that favor newer, undeveloped cities while severely restricting developed cities (like Parchment) to amounts at or below the rate of inflation. State revenue sharing made up \$370,763 or 27% of the total revenue, down 10% from last year. The distribution of this revenue is controlled by State laws. The remaining 20% of governmental fund revenues are comprised mostly of Charges for Services and Interest revenue.

Business-Type Activities

Operating revenues of the City's business-type activities decreased slightly from the prior year of \$428,390 to the current year total of \$397,922. Operating expenses decreased by \$6,476 to \$483,140. The major factors contributing to the \$6,476 decrease were lower repair and maintenance costs. For fiscal year 2005/2006 there will be an increase in sewer rates to offset the decline in retained earnings.

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue			
Charges for services	\$ 129,547	\$ 397,922	\$ 527,469
General revenue:			
Property taxes	744,940	---	744,940
State-shared revenue	370,763	---	370,763
Interest	52,915	15,988	68,903
Franchise fees and other revenue	94,543	1,820	96,363
Total revenue	<u>1,392,708</u>	<u>415,730</u>	<u>1,808,438</u>
Program expenses			
General government	348,075	---	348,075
Public safety	456,869	---	456,869
Public works	348,635	---	348,635
Recreation and culture	94,561	---	94,561
Water and sewer	---	483,140	483,140
Total program expenses	<u>1,248,140</u>	<u>483,140</u>	<u>1,731,280</u>
Change in net assets	<u>\$ 144,568</u>	<u>\$ (67,410)</u>	<u>\$ 77,158</u>

**CITY OF PARCHMENT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005**

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,103,702, \$82,243 higher than last year.

The City's Funds

The fund financial statements provide detailed information about the most significant funds, not the City of Parchment as a whole. The City Commission created funds to help manage money for specific purposes as well as show accountability for certain activities, such as the State of Michigan Act 51, Major and Local Street funds. The City of Parchment governmental major funds include the General Fund and the Major and Local Street Funds.

- General Fund

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues, from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increased fund balance of \$75,530 over 2004.

- Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The City uses these for improvements to the city street system, along with contributions from General Fund. Major Streets had an increase in fund balance of \$31,484 and Local Streets had a decrease of \$24,771.

General Fund Budgetary Highlights

The budget for 2004-2005 was passed on June 07, 2004. Over the course of the year the City of Parchment amended the budget to take into account unanticipated events during the year. There were five budget amendments during fiscal year 2004-2005. The legislative budget was increased by \$38,536 to account for grant related expenditures for the Waterfront redevelopment grant. These expenditures were offset by grant revenues. The police budget was increased by \$10,014 to account for the purchase of radios and tasers. These expenditures were offset by grant revenues and private donations. The fire budget was increased by \$138,920 to account for the purchase of the fire truck and a thermal imaging camera. The fire truck purchase involved a 5 year loan in the amount of \$160,063. The camera was funded by private donations.

**CITY OF PARCHMENT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005**

Capital Assets

At the end of 2005, the City had invested \$3,794,400 in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of statement 34 over a number of years. This year's major capital improvements included the following:

- Fire Truck - \$165,169
- Thermal Imaging Camera - \$13,920
- Police Radios - \$13,843
- Street Repaving - \$ 49,530
- Riverwalk Extension - \$ 66,104

Long-term Debt

At year-end the City had \$1,045,000 in bonds and notes outstanding for the Downtown Development Authority and \$129,067 in a note for the Fire Truck.

Limitations on Debt

The State limits the amount of general obligation debt the City can issue to 7% of the assessed value of all taxable property within the City's corporate limits. Our legal debt limit is \$3,204,312. The City has an available unused portion of \$2,030,245.

Bond Ratings

Standard and Poor's Investors Service, has given the City of Parchment a BBB bond rating, recognizing the affect of the Crown Paper Company bankruptcy and closing.

Economic Factors and Next Year's Budgets and Rates

The inflation rate for use in the 2004 capped value formula, and the 2004 "Headlee" millage reduction fraction formula was 2.3%. The capped value and the Headlee millage reduction are key elements in determining property tax revenues.

The City has again produced a timely budget for fiscal year 2005. Total appropriations in the General fund 2004 budget are \$1,384,417 a decrease of \$100,212 over the final 2004 budget of \$1,484,629.

**CITY OF PARCHMENT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005**

Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Parchment, 650 S Riverview Drive, Parchment, MI 49004.

CITY OF PARCHMENT, MICHIGAN
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			
	Govern- Mental Activities	Business- Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 56,636	\$ 17,720	\$ 74,356	\$ 5,321
Investments	1,301,146	409,299	1,710,445	122,909
Receivables	135,052	121,051	256,103	10,298
Inventory	239	15,043	15,282	---
Due from other funds	17,801	---	17,801	---
Prepaid expenses	654	---	654	---
Due from State	21,159	---	21,159	---
Capital assets - net	2,432,210	1,362,190	3,794,400	5,717
TOTAL ASSETS	\$ 3,964,897	\$ 1,925,303	\$ 5,890,200	\$ 144,245
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 32,471	\$ 9,665	\$ 42,136	\$ ---
Accrued and other liabilities	37,749	1,533	39,282	14,282
Due to others	1,267	---	1,267	---
Noncurrent liabilities				
Due within one year	65,140	---	65,140	165,000
Due in more than one year	154,742	---	154,742	880,000
TOTAL LIABILITIES	291,369	11,198	302,567	1,059,282
NET ASSETS				
Invested in capital assets, net of related debt	2,292,646	1,362,190	3,654,836	(1,039,283)
Unreserved	1,380,882	551,915	1,932,797	124,246
TOTAL NET ASSETS	3,673,528	1,914,105	5,587,633	(915,037)
TOTAL LIABILITIES AND NET ASSETS	\$ 3,964,897	\$ 1,925,303	\$ 5,890,200	\$ 144,245

See Notes to Financial Statement

CITY OF PARCHEMENT, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
		Charges for	Services	Governmental Activities	Business-Type Activities	Component Units
Primary government						
Governmental activities						
General government	\$ 348,075	\$	44,119	\$ (303,956)	\$	\$
Public safety	456,869		455	(456,414)		(456,414)
Public works	348,635		15,945	(332,690)		(332,690)
Health and welfare	---		69,028	69,028		69,028
Recreation and culture	94,561		---	(94,561)		(94,561)
TOTAL GOVERNMENTAL ACTIVITIES	1,248,140		129,547	(1,118,593)		(1,118,593)
Business-type activities						
Water	263,050		237,778	---	(25,272)	(25,272)
Sewer	220,090		160,144	---	(59,946)	(59,946)
TOTAL BUSINESS-TYPE ACTIVITIES	483,140		397,922	---	(85,218)	(85,218)
TOTAL PRIMARY GOVERNMENT	\$ 1,731,280	\$	527,469	(1,118,593)	(85,218)	(1,203,811)
Component Unit						
Downtown Development Authority	\$ 70,961	\$	---	---	---	(70,961)
GENERAL REVENUES						
Property taxes				744,940	---	744,940
State shared revenue				370,763	---	370,763
Interest and investment income				52,915	15,988	68,903
Franchise fees				9,767	---	9,767
Miscellaneous				84,776	1,820	86,596
TOTAL GENERAL REVENUES				1,263,161	17,808	1,280,969
INCREASE (DECREASE) IN NET ASSETS				144,568	(67,410)	77,158
Net assets at beginning of year				3,501,362	1,981,515	5,482,877
Contribution to/from component unit				27,598	---	27,598
NET ASSETS AT END OF YEAR		\$	3,673,528	\$	1,914,105	\$ 5,587,633
						\$ (915,037)

See Notes to Financial Statement

CITY OF PARCHMENT, MICHIGAN
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Govern- Mental</u>
ASSETS				
Cash and cash equivalents	\$ 33,110	\$ 9,435	\$ 2,172	\$ 44,717
Investments	757,740	217,923	50,179	1,025,842
Receivables				
Trade	19,688	---	---	19,688
Taxes	31,468	---	---	31,468
Trash and recycling	15,682	---	---	15,682
State shared revenue	25,926	---	---	25,926
Interest	---	1,224	---	1,224
Due from other funds	17,801	---	---	17,801
Prepaid expenses	654	---	---	654
Due from state	---	14,951	6,208	21,159
TOTAL ASSETS	<u>\$ 902,069</u>	<u>\$ 243,533</u>	<u>\$ 58,559</u>	<u>\$ 1,204,161</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 29,487	\$ 399	\$ 675	\$ 30,561
Notes payable	30,986	---	---	30,986
Interest payable	4,082	---	---	4,082
Accrued wages	7,426	69	---	7,495
Accrued payroll taxes	567	---	---	567
Accrued vacation	25,501	---	---	25,501
Due to others	1,267	---	---	1,267
TOTAL LIABILITIES	<u>99,316</u>	<u>468</u>	<u>675</u>	<u>100,459</u>
FUND BALANCES				
Designated for disaster	500	---	---	500
Designated for sight development	173,306	---	---	173,306
Unreserved	628,947	243,065	57,884	929,896
TOTAL FUND BALANCES	<u>802,753</u>	<u>243,065</u>	<u>57,884</u>	<u>1,103,702</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 902,069</u>	<u>\$ 243,533</u>	<u>\$ 58,559</u>	<u>\$ 1,204,161</u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET
ASSETS – GOVERNMENTAL FUNDS
June 30, 2005

Total governmental fund balances		\$ 1,103,702
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:		
The cost of the capital assets is	3,129,133	
Accumulated depreciation is	<u>(830,131)</u>	2,299,002
Other assets are not available to pay for current year expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:		
State shared revenue		37,614
Long term liabilities that are not due and payable in the current period and are not reported in the funds:		
Compensated absences payable	49,332	
Lease payable	10,497	
Note payable	<u>129,067</u>	(188,896)
Internal service funds are used by management to charge the cost of equipment to individual funds:		
Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets		<u>422,106</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 3,673,528</u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Govern- Mental</u>
REVENUES				
Taxes	\$ 782,857	\$ ---	\$ ---	\$ 782,857
Licenses and permits	86,434	---	---	86,434
State grants	241,140	92,438	36,999	370,577
Charges for service	1,518	---	---	1,518
Fines and forfeitures	15,945	---	---	15,945
Interest	44,659	7,001	1,255	52,915
Other revenue	87,086	---	---	87,086
TOTAL REVENUES	<u>1,259,639</u>	<u>99,439</u>	<u>38,254</u>	<u>1,397,332</u>
OTHER FINANCING SOURCES				
Loan proceeds	<u>160,063</u>	<u>---</u>	<u>---</u>	<u>160,063</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>1,419,702</u>	<u>99,439</u>	<u>38,254</u>	<u>1,557,395</u>
EXPENDITURES				
Current				
General government	329,825	---	---	329,825
Public safety	411,086	---	---	411,086
Public works	244,666	43,352	38,098	326,116
Recreation and culture	92,059	---	---	92,059
Capital outlay	231,468	24,603	24,927	280,998
Debt service	35,068	---	---	35,068
TOTAL EXPENDITURES	<u>1,344,172</u>	<u>67,955</u>	<u>63,025</u>	<u>1,475,152</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>75,530</u>	<u>31,484</u>	<u>(24,771)</u>	<u>82,243</u>
Fund balances at beginning of year	<u>727,223</u>	<u>211,581</u>	<u>82,655</u>	<u>1,021,459</u>
FUND BALANCES AT END OF YEAR	<u>\$ 802,753</u>	<u>\$ 243,065</u>	<u>\$ 57,884</u>	<u>\$ 1,103,702</u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF
ACTIVITIES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

Net change in fund balance – total governmental funds		\$ 82,243
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	(83,402)	
Capital outlay	<u>306,000</u>	222,598
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt payable)		
Lease payable		3,499
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Change in accumulated sick pay	(2,473)	
Note payable	<u>(129,067)</u>	(131,540)
Contributed capital from the component unit		(27,598)
Assets are not available to pay for current period expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:		
Change in property taxes receivable		186
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities.		
		<u>(4,820)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 144,568</u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2005

	<u>Business-Type Activities – Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,605	\$ 14,115	\$ 17,720	\$ 11,919
Investments	83,273	326,026	409,299	275,304
Inventory	---	15,043	15,043	239
Accounts receivable	45,857	69,372	115,229	---
Interest receivable	1,407	4,415	5,822	3,450
TOTAL CURRENT ASSETS	134,142	428,971	563,113	290,912
PROPERTY AND EQUIPMENT				
Sewer system	1,092,914	---	1,092,914	---
Water system	---	1,804,551	1,804,551	---
Equipment - internal service	---	---	---	321,607
	1,092,914	1,804,551	2,897,465	321,607
Less accumulated depreciation	(447,673)	(1,087,602)	(1,535,275)	(188,399)
NET PROPERTY AND EQUIPMENT	645,241	716,949	1,362,190	133,208
TOTAL ASSETS	\$ 779,383	\$ 1,145,920	\$ 1,925,303	\$ 424,120
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 6,082	\$ 3,583	\$ 9,665	\$ 1,910
Accrued wages	754	779	1,533	104
TOTAL CURRENT LIABILITIES	6,836	4,362	11,198	2,014
NET ASSETS				
Invested in capital assets	645,241	716,949	1,362,190	133,208
Unrestricted	127,306	424,609	551,915	288,898
TOTAL NET ASSETS	772,547	1,141,558	1,914,105	422,106
TOTAL LIABILITIES AND NET ASSETS	\$ 779,383	\$ 1,145,920	\$ 1,925,303	\$ 424,120

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
ASSETS – PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	<u>Business-Type Activities – Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
OPERATING REVENUES				
Charges for services	\$ 158,358	\$ ---	\$ 158,358	\$ ---
Water sales and installation	---	227,674	227,674	---
Penalties	1,786	4,264	6,050	---
Hydrant rental	---	5,840	5,840	---
Equipment rental	---	---	---	67,008
TOTAL OPERATING REVENUES	160,144	237,778	397,922	67,008
OPERATING EXPENSES				
Salaries and wages	31,952	63,995	95,947	22,910
Social security	1,976	4,000	5,976	1,433
Hospital and life insurance	8,320	24,261	32,581	6,701
Pension	1,308	2,638	3,946	946
Worker's compensation	942	1,898	2,840	871
Medicare	462	935	1,397	335
Safety supplies	---	202	202	---
Operating supplies	164	243	407	---
Postage	800	904	1,704	---
Chemicals	---	5,145	5,145	---
Gasoline and oil	---	1,502	1,502	6,856
Repair and maintenance - supplies	---	9,051	9,051	7,107
Professional/contractual services	---	7,515	7,515	---
Sewer treatment charges	101,533	---	101,533	---
Uniform rental	---	97	97	---
Membership and dues	---	305	305	---
Communications	565	2,710	3,275	---
Computer services	524	1,524	2,048	---
Institutes and training	---	906	906	---
Insurance and bonds	3,568	3,568	7,136	7,794
Utilities	638	34,717	35,355	---
Repair and maintenance - contractors	14,305	16,574	30,879	5,812
Repairs and maintenance - vehicles	---	2,127	2,127	---
Rentals	358	580	938	---
Administrative overhead	30,000	30,000	60,000	1,500
Depreciation	22,675	47,653	70,328	20,526
TOTAL OPERATING EXPENSES	220,090	263,050	483,140	82,791
OPERATING LOSS	(59,946)	(25,272)	(85,218)	(15,783)

See Notes to Financial Statement

CITY OF PARCHMENT, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
ASSETS – PROPRIETARY FUNDS (CONTINUED)
For the Year Ended June 30, 2005

	<u>Business-Type Activities – Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
NON-OPERATING REVENUES				
Interest on investments	\$ 4,106	\$ 11,882	\$ 15,988	\$ 8,946
Miscellaneous	---	---	---	3,837
TOTAL NON- OPERATING REVENUES	<u>4,106</u>	<u>11,882</u>	<u>15,988</u>	<u>12,783</u>
CHANGE IN NET ASSETS	(55,840)	(13,390)	(69,230)	(3,000)
Net assets at beginning of year	<u>828,387</u>	<u>1,154,948</u>	<u>1,983,335</u>	<u>425,106</u>
NET ASSETS AT END OF YEAR	<u>\$ 772,547</u>	<u>\$ 1,141,558</u>	<u>\$ 1,914,105</u>	<u>\$ 422,106</u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	<u>Business-Type Activities – Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 160,824	\$ 231,244	\$ 392,068	\$ 67,008
Payments to suppliers	(128,964)	(94,583)	(223,547)	(33,423)
Payments to employees	(44,571)	(97,721)	(142,292)	(26,714)
Internal activity – payments to other funds	(30,358)	(30,580)	(60,938)	(1,500)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(43,069)	8,360	(34,709)	5,371
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Other	---	---	---	734
Proceeds from sale of equipment	---	---	---	3,100
Purchase of equipment	---	(43,251)	(43,251)	(19,272)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	---	(43,251)	(43,251)	(15,438)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments	26,727	220	26,947	(16,315)
Receipt of interest	6,854	9,991	16,845	7,502
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	33,581	10,211	43,792	(8,813)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,488)	(24,680)	(34,168)	(18,880)
Cash and cash equivalents at beginning of year	13,093	38,795	51,888	30,799
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,605</u>	<u>\$ 14,115</u>	<u>\$ 17,720</u>	<u>\$ 11,919</u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
For the Year Ended June 30, 2005

	<u>Business-Type Activities – Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating loss	\$ (59,946)	\$ (25,272)	\$ (85,218)	\$ (15,783)
Adjustments to reconcile operating loss to cash provided by (used in) operating activities				
Depreciation	22,675	47,653	70,328	20,526
Decrease (increase) in:				
Accounts receivable	679	(6,534)	(5,855)	---
Inventory	---	(4,032)	(4,032)	499
Increase (decrease) in:				
Accounts payable	(6,866)	(3,461)	(10,327)	356
Accrued liabilities	389	6	395	(227)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (43,069)</u>	<u>\$ 8,360</u>	<u>\$ (34,709)</u>	<u>\$ 5,371</u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2005

	<u>Payroll Fund</u>	<u>Tax Collection Fund</u>
ASSETS		
Cash and cash equivalents	\$ ---	\$ 4,455
Investments	---	132,151
Prepaid expenses	17,790	---
Interest receivable	---	2,825
TOTAL ASSETS	<u><u>\$ 17,790</u></u>	<u><u>\$ 139,431</u></u>
LIABILITIES		
Checks written against future deposits	\$ 14,090	\$ ---
Accounts payable	140	30,405
Due to other funds	---	17,801
Due to others	3,560	91,225
TOTAL LIABILITIES	<u><u>\$ 17,790</u></u>	<u><u>\$ 139,431</u></u>

See Notes to Financial Statements

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE A – Summary of Significant Accounting Policies

The accounting policies of the City of Parchment, Michigan (the City) are in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City was incorporated in 1939 and is located in Kalamazoo County, Michigan. The City is governed by a seven member City Commission, elected by the community at large. This legislative body selects, from among its members, the Mayor, and appoints a City Manager to administer the affairs of the City. The City provides the following services to its residents as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The individual component unit discussed below is included in the City's reporting entity because of its financial relationship with the City.

Discretely Presented Component Unit

The following component unit is reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable.

Downtown Development Authority (DDA)

The members of the governing board are appointed by the City Commission. The Authority's budget is subject to approval by the City Commission. The DDA does not issue any other form of financial statements except as contained in the City of Parchment annual financial statements.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE A – Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE A – Summary of Significant Accounting Policies (Continued)

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fund Based Statements

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Additionally, the City reports the following major proprietary funds:

The Water Fund accounts for the costs of providing water services to City residents.

The Sewer Fund accounts for the cost of collection and treating waste waters.

Additionally, the City reports the following other funds:

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE A – Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing water and sewer services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water sales and services, sewage disposal, park and harbor fees and charges. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

City property taxes are assessed as of December 31 and attached as an enforceable lien on property as of July 1 of the following year and are due without penalty on or before August 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of the Parchment school district, the intermediate school district, and Kalamazoo Valley Community College. Real property taxes not collected, but deemed collectable, as of March 1, are turned over to Kalamazoo County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. The City acts as a collection agent for Kalamazoo County and the Parchment Community Library for winter property taxes.

The City collects a 1% property tax administration fee.

The 2004 taxable valuation of the city is \$45,712,869 on which ad valorem taxes levy consisted of 16.677 mills for operating purposes. This resulted in \$744,940 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. This amount is recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash and investments are maintained in an investment pool. Accounting records for the pool are maintained on a fund basis. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool. Investments are stated at fair value (quoted market price or the best available estimate).

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE A – Summary of Significant Accounting Policies (Continued)

Receivables and Payables

In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Real property taxes are considered delinquent on August 15th, at which time penalties and interest are assessed. Real property taxes not collected, but deemed collectable are turned over to Kalamazoo County for collection as of March 1st of the following year. Kalamazoo County advances the City 100% for the delinquent taxes as the County maintains a revolving tax fund to finance delinquent real property taxes for local units.

Inventories and Prepaid Costs

Inventories consist primarily of supplies in the proprietary funds. Inventories are recognized as an asset in the proprietary fund types. Inventory is valued at the lower of cost (first in, first out) or market.

Inventories in the governmental fund types are insignificant and are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized.

The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE A – Summary of Significant Accounting Policies (Continued)

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Building and building improvements	50 to 60 years
Utility systems	25 to 100 years
Roads	20 years
Other Infrastructure	15 to 25 years
Vehicles	5 to 20 years
Heavy duty equipment	20 to 40 years
Machinery and equipment	5 to 25 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in applicable governmental activities, business type activities, or proprietary fund type statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Contributed capital is recorded in proprietary funds for capital grants or contributions from customers or other funds.

Comparative Data/Reclassifications

Comparative data is not included in the City's financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE B - Stewardship, Compliance, and Accountability

Fund Deficit

The City has accumulated a net assets deficit in the Downtown Development Authority (DDA) Fund. The deficit is a result of bonds that were issued in 1997. The proceeds of these bonds were used to purchase infrastructure assets. As allowed by GASB 34, the City has chosen to capitalize infrastructure assets prospectively, and to not go back and capitalize infrastructure assets from prior periods.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE B - Stewardship, Compliance, and Accountability (Continued)

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first commission meeting in April, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 1st, the budget is legally adopted by the City Commission.
4. The City Manager is authorized to transfer up to \$5,000 from any function of the budget to any other function of the budget within the same fund without further approval.
5. At the beginning of each quarter during the fiscal year, and more often if required by the City Commission, the City Manager shall submit to the Commission data showing the relation between the estimated and actual income and expenses to date; and if it shall appear that the income is less than anticipated, the Commission may reduce appropriations, except any amounts required for debt and interest charges, to such degree as may be necessary to keep expenditures within income and designated reserves. If the revenues exceed the amounts estimated in the budget, the Commission may make supplemental appropriations.
6. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted or amended by the City Commission.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE C – Cash and Investments

At June 30, 2005, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Govern- Mental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 56,636	\$ 17,720	\$ 74,356	\$ 5,321
Investments	1,301,146	409,299	1,710,445	122,909
TOTAL	<u>\$ 1,357,782</u>	<u>\$ 427,019</u>	<u>\$ 1,784,801</u>	<u>\$ 128,230</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking accounts)	\$ 74,356	\$ 5,321
Investments (certificates of deposit and government bonds)	1,710,445	122,909
TOTAL	<u>\$ 1,784,801</u>	<u>\$ 128,230</u>

Michigan Compiled Law authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The governing body has designated five banks for deposit of local unit funds. The investment policy adopted by the Commission has authorized all of the investments allowable under Michigan law.

The City's deposits and investment policy are in accordance with statutory authority.

Cash deposits and investments are classified according to credit risk to give an indication of the level of risk assumed by the City at June 30, 2005. The categories are described as follows:

Category 1: Insured or registered, or securities held by the City or by its agent in the City's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE C – Cash and Investments (Continued)

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At June 30, 2005, the carrying amount of the City's and its component units' deposits with financial institutions totaled \$749,748, of which \$69,742 is reported as cash and cash equivalents and \$680,006 is reported as investments which are certificates of deposits that mature in greater than three months. The certificates of deposits range in maturity from September 18, 2006 to September 16, 2013. At year end, the bank balance was \$846,831. Of the bank balance, \$639,143 is covered by federal depository insurance and \$207,688 was uninsured and uncollateralized. Since the component unit participates in the City's common cash, the federal depository insurance is not specifically allocated to their balance.

The City's investments of \$1,285,499 are U.S. government obligations which are not categorized because they are not evidenced by securities that are in physical or book entry form. The investments range in maturity from November 16, 2006 to July 16, 2010.

NOTE D – Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	July 1, 2004	Additions	Disposals	June 30, 2005
Capital assets not being depreciated				
Land	\$ 1,303,688	\$ ---	\$ ---	\$ 1,303,688
Capital assets being depreciated				
Buildings and improvements	270,082	---	---	270,082
Machinery and equipment	1,338,803	212,204	107,882	1,443,125
Roads	318,181	115,664	---	433,845
	<u>1,927,066</u>	<u>327,868</u>	<u>107,882</u>	<u>2,147,052</u>
Less accumulated depreciation				
Buildings and improvements	167,333	5,402	---	172,735
Machinery and equipment	845,827	80,361	105,286	820,902
Roads	6,728	18,165	---	24,893
	<u>1,019,888</u>	<u>103,928</u>	<u>105,286</u>	<u>1,018,530</u>
Net capital assets being depreciated	<u>907,178</u>	<u>223,940</u>	<u>2,596</u>	<u>1,128,522</u>
Governmental capital assets total – net of accumulated depreciation	<u>\$ 2,210,866</u>	<u>\$ 223,940</u>	<u>\$ 2,596</u>	<u>\$ 2,432,210</u>

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE D – Capital Assets (Continued)

Capital asset activity of the City's business-type activities was as follows:

	July 1, 2004	Additions	Disposals	June 30, 2005
Capital assets not being depreciated:				
Land	\$ 7,000	\$ ---	\$ ---	\$ 7,000
Capital assets being depreciated				
Buildings and improvements	269,184	---	---	269,184
Other improvements	13,647	---	---	13,647
Machinery and equipment	1,024,618	43,251	---	1,067,869
Distribution and collection systems	1,539,768	---	---	1,539,768
	<u>2,847,217</u>	<u>43,251</u>	<u>---</u>	<u>2,890,468</u>
Less accumulated depreciation				
Buildings and improvements	109,469	5,736	---	115,205
Improvements other than buildings	3,010	342	---	3,352
Machinery and equipment	700,223	39,191	---	739,414
Distribution and collection systems	652,245	25,061	---	677,306
	<u>1,464,947</u>	<u>70,330</u>	<u>---</u>	<u>1,535,277</u>
Net capital assets being depreciated	<u>1,382,270</u>	<u>(27,079)</u>	<u>---</u>	<u>1,355,191</u>
Business-type capital assets total – net of accumulated depreciation	<u>\$ 1,389,270</u>	<u>\$ (27,079)</u>	<u>\$ ---</u>	<u>\$ 1,362,191</u>

Capital asset activity of the City's component units was as follows:

	July 1, 2004	Additions	Disposals	June 30, 2005
Capital assets being depreciated				
Machinery and equipment	\$ 7,977	\$ ---	\$ ---	\$ 7,977
Less accumulated depreciation				
Machinery and equipment	1,462	798	---	2,260
Component unit capital assets total – net of accumulated depreciation	<u>\$ 6,515</u>	<u>\$ (798)</u>	<u>\$ ---</u>	<u>\$ 5,717</u>

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE D – Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Government activities	
General government	\$ 16,680
Public safety	41,701
Public works	22,519
Recreation and culture	2,502
Internal service fund depreciation is charged to the various	
Functions based on usage of assets	20,526
Total governmental activities	<u>\$ 103,928</u>
Business-type activities	
Water	\$ 47,653
Sewer	22,675
Total business-type activities	<u>\$ 70,328</u>

NOTE E – Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2005, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Tax Collection Fund	\$ 17,801

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE F – Long-Term Debt

	Balance at July 1, 2004	Additions	Deductions	Balance at June 30, 2005
GOVERNMENTAL ACTIVITIES				
Note payable to a bank in the amount of \$160,063, including interest at 3.41%	\$ ---	\$ 160,063	\$ (30,996)	\$ 129,067
Capital lease payable to a finance company in the amount of \$17,495, including interest at 26.2%	13,996	---	(3,499)	10,497
Compensated absences	46,859	2,473	---	49,332
TOTAL GOVERNMENTAL ACTIVITIES	60,855	162,536	(34,495)	188,896
COMPONENT UNIT				
1991 general obligation bonds in the amount of \$1,660,000, including interest ranging from 5.0% to 5.3%	1,185,000	---	(140,000)	1,045,000
TOTAL INDEBTEDNESS	<u>\$ 1,245,855</u>	<u>\$ 162,536</u>	<u>\$ (174,495)</u>	<u>\$ 1,233,896</u>

Annual debt service requirements to maturity for debt obligations are as follows:

	Governmental Activities		Component Unit	
Payments due for years ending June 30:	Principal	Interest	Principal	Interest
2006	\$ 30,655	\$ 4,403	\$ 165,000	\$ 57,130
2007	31,712	3,356	160,000	48,550
2008	32,787	2,281	160,000	40,070
2009	33,913	1,157	155,000	31,430
2010	---	---	180,000	22,905
2011	---	---	225,000	2,825
	<u>\$ 129,067</u>	<u>\$ 11,197</u>	<u>\$ 1,045,000</u>	<u>\$ 202,910</u>

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE F – Long-Term Debt

Capital Leases

The government has entered into a lease agreement as lessee for financing the purchase of a digital copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payment as of the inception date. The future minimum lease obligations and the net present value are as follows at June 30, 2005:

2006	\$ 3,499
2007	3,499
2008	3,499
Total minimum lease payments	<u>10,497</u>
Less amount representing interest	<u>(3,279)</u>
Present value	<u>\$ 7,218</u>

Accrued Vacation and Sick Leave Payable

The City has accrued liabilities for accumulated vested sick leave benefits. See Note A for a description of the City's accounting policies related to these items.

NOTE G – Employee Retirement and Benefit System

Plan Description

The City has a defined benefit pension plan that covers substantially all full time employees. The plan is operated by the State of Michigan Municipal Employees' Retirement System (MERS), which is a cost-sharing-agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at: 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires City employees to contribute 4.7% of their annual compensation. The City is required to contribute the remaining amounts necessary to fund MERS, using the actuarial basis specified by statute.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE G – Employee Retirement and Benefit System (Continued)

Annual Pension Costs

For the year ended June 30, 2005, the City's annual pension cost of \$18,701 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal funding cost method. Significant actuarial assumptions used included a rate of return on the investment of present and future assets of 8% per year compounded annually; projected salary increases of 4.5% per year compounded annually, attributable to inflation; additional projected salary increases ranging from 0% to 8.4% per year, depending on age, attributable to seniority/merit. The unfunded actuarial liability is being amortized as a level percent of payroll over a period of 30 years.

During the year ended December 31, 2004, the plan experienced an increase of \$83,940 in the net pension obligation. The combined change in net pension obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$38,813.

Three Year Trend Information- (Unaudited)

Three year trend information as of December 31, 2004 follows:

	2004	2003	2002
Annual pension cost	\$ 26,616	\$ 21,888	\$ 18,490
Percentage of APC contributed	100	100	100
Net pension obligation	134,490	84,221	32,134
Actuarial value of assets	1,989,692	1,956,021	1,904,301
Actuarial accrued liability	2,124,182	2,040,242	1,936,435
Unfunded (overfunded) AAL	134,490	84,221	32,134
Funded ratio	94	96	98
Covered payroll	459,732	453,158	440,377
UAAL as a percentage of covered payroll	29	19	7

NOTE H – Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Voluntary employee contributions for the year ended June 30, 2005 were \$12,960.

CITY OF PARCHMENT, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE I – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for death and disability, hospitalization and life claims, and is a member of the Michigan Municipal League Liability and Property Pool for claims relating in liability, fire, fleet and bonds. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City participates in the Michigan Municipal Worker's Compensation Fund risk pools for the purpose of its workers compensation coverage.

The Michigan Municipal League Risk Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PARCHMENT, MICHIGAN
BUDGET COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Fav (Unfav)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 662,000	\$ 662,000	\$ 782,857	\$ 120,857
Licenses and permits	95,700	95,700	86,434	(9,266)
State grants	203,850	203,850	241,140	37,290
Charges for services	21,300	21,300	1,518	(19,782)
Fines and forfeitures	18,000	18,000	15,945	(2,055)
Interest	20,000	20,000	44,659	24,659
Other revenue	65,000	65,000	87,086	22,086
TOTAL REVENUES	<u>1,085,850</u>	<u>1,085,850</u>	<u>1,259,639</u>	<u>173,789</u>
OTHER FINANCING SOURCES				
Loan proceeds	---	---	160,063	160,063
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>1,085,850</u>	<u>1,085,850</u>	<u>1,419,702</u>	<u>333,852</u>
EXPENDITURES				
General government	503,159	503,159	329,825	173,334
Public safety	410,805	420,809	411,086	9,723
Public works	263,415	263,415	244,666	18,749
Recreation and cultural	96,100	96,100	92,059	4,041
Capital outlay	37,600	176,520	231,468	(54,948)
Debt service	---	---	35,068	(35,068)
TOTAL EXPENDITURES	<u>1,311,079</u>	<u>1,460,003</u>	<u>1,344,172</u>	<u>115,831</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>(225,229)</u>	<u>(374,153)</u>	<u>75,530</u>	<u>449,683</u>
Fund balance at beginning of year	<u>727,223</u>	<u>727,223</u>	<u>727,223</u>	<u>---</u>
FUND BALANCE AT END OF YEAR	<u>\$ 501,994</u>	<u>\$ 353,070</u>	<u>\$ 802,753</u>	<u>\$ 449,683</u>

CITY OF PARCHMENT, MICHIGAN
BUDGET COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Fav (Unfav)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
State grants	\$ 98,300	\$ 98,300	\$ 92,438	\$ (5,862)
Interest	2,000	2,000	7,001	5,001
TOTAL REVENUES	100,300	100,300	99,439	(861)
EXPENDITURES				
Routine maintenance	11,590	11,590	12,262	(672)
Traffic services	5,932	5,932	6,401	(469)
Winter maintenance	18,265	18,265	16,647	1,618
Administration	8,191	8,191	8,042	149
Capital outlay	32,000	32,000	24,603	7,397
TOTAL EXPENDITURES	75,978	75,978	67,955	8,023
OTHER FINANCING USES				
Operating transfer out	24,600	24,600	---	24,600
TOTAL EXPENDITURES AND OTHER FINANCING USES	100,578	100,578	67,955	32,623
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(278)	(278)	31,484	31,762
Fund balance at beginning of year	211,581	211,581	211,581	---
FUND BALANCE AT END OF YEAR	<u>\$ 211,303</u>	<u>\$ 211,303</u>	<u>\$ 243,065</u>	<u>\$ 31,762</u>

CITY OF PARCHMENT, MICHIGAN
BUDGET COMPARISON SCHEDULE – LOCAL STREET FUND
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Fav (Unfav)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
State grants	\$ 39,200	\$ 39,200	\$ 36,999	\$ (2,201)
Interest	750	750	1,255	505
TOTAL REVENUES	39,950	39,950	38,254	(1,696)
OTHER FINANCING SOURCES				
Operating transfers in	24,600	24,600	---	(24,600)
TOTAL REVENUES AND OTHER FINANCING SOURCES	64,550	64,550	38,254	(26,296)
EXPENDITURES				
Routine maintenance	14,266	14,266	12,992	1,274
Traffic services	2,565	2,565	2,029	536
Winter maintenance	16,882	16,882	16,262	620
Administration	7,010	7,010	6,815	195
Capital outlay	24,500	24,500	24,927	(427)
TOTAL EXPENDITURES	65,223	65,223	63,025	2,198
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(673)	(673)	(24,771)	(24,098)
Fund balance at beginning of year	82,655	82,655	82,655	---
FUND BALANCE AT END OF YEAR	<u>\$ 81,982</u>	<u>\$ 81,982</u>	<u>\$ 57,884</u>	<u>\$ (24,098)</u>

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

September 28, 2005

To the Honorable Mayor
and Members of the City Commission
City of Parchment, Michigan

In planning and performing our audit of the financial statements of the City of Parchment, Michigan (the City) as of and for the year ended June 30, 2005, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that either will have a significant impact on the accounting function of the City or that are opportunities for strengthening internal controls and operating efficiency. Such matters are described in the following paragraphs.

Bank Reconciliations

It was noted during our audit that cash and investment accounts were not appropriately reconciled from bank and investment statements to the general ledger. We also noted that cancelled checks were not returned to the City with the monthly bank statements.

We recommend that all cash and investment account balances be reconciled to the general ledger on a timely basis to ensure accurate and timely financial reporting. Additionally, we recommend that bank statements and the related canceled checks be directly received, opened, and reviewed by someone independent of the bank reconciliation process. We also recommend that management review and consider simplifying its cash and investment policies to provide better control over cash balances.

Cash Receipts

All cash receipts are received under single control. We recommend that all cash receipts be received and processed under dual control or be otherwise controlled to ensure proper receipt and recording in the general ledger.

General Ledger Mispostings

During our audit we noted numerous mispostings to the general ledger in the various funds. We recommend that management review the process for posting expenditures and journal entries to the general ledger to ensure accurate financial reporting on a timely basis.

General Fund Budget

During our audit we noted there were significant variances between budgeted and actual amounts for various revenue and expenditure line items. We recommend that management review the process for ensuring the accuracy of budgeted amounts, and that the budget be appropriately amended to reflect any significant variances from actual amounts.

Tax Fund Payments

During our audit we noted certain tax payments due to other governmental agencies have not been paid on a timely basis. We recommend that all taxes owed to other governmental agencies be paid on a timely basis.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various administrative personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads "Seber Tans, PLC". The signature is written in a cursive, flowing style.

Seber Tans, PLC